

VZCZCXRO6093  
RR RUEHDT RUEHPB  
DE RUEHWL #0112/01 1250534  
ZNR UUUUU ZZH  
R 050534Z MAY 09  
FM AMEMBASSY WELLINGTON  
TO RUEHC/SECSTATE WASHDC 5857  
INFO RUEHNZ/AMCONSUL AUCKLAND 1963  
RUEHBY/AMEMBASSY CANBERRA 5509  
RUEHAP/AMEMBASSY APIA 0563  
RUEHDN/AMCONSUL SYDNEY 0841  
RUEHKN/AMEMBASSY KOLONIA 0040  
RUEH MJ/AMEMBASSY MAJURO 0138  
RUEHPB/AMEMBASSY PORT MORESBY 0847  
RUEHML/AMEMBASSY MANILA 0579  
RUEHKO/AMEMBASSY TOKYO 0737  
RUEHBJ/AMEMBASSY BEIJING 0528  
RUEHLO/AMEMBASSY LONDON 0228  
RUEHFR/AMEMBASSY PARIS 0342  
RUEHBS/AMEMBASSY BRUSSELS 0084  
RUCNDT/USMISSION USUN NEW YORK 0157  
RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE

UNCLAS SECTION 01 OF 03 WELLINGTON 000112

SIPDIS  
SENSITIVE

STATE FOR STATE FOR EAP/ANP  
PACOM FOR J01E/J2/J233/J5/SJFHQ

E.O. 12958: N/A

TAGS: [EAID](#) [SOCI](#) [KDEM](#) [PREL](#) [NZ](#)

SUBJECT: NEW ZEALAND'S FOREIGN MINISTER ANNOUNCES CHANGE IN AID  
FOCUS

WELLINGTON 00000112 001.2 OF 003

¶1. (SBU) Summary. In a stinging May 1 speech, New Zealand Foreign Minister Murray McCully signaled a course correction in New Zealand's aid program. Chief among the National Government's intended changes is a shift away from poverty alleviation to developing economic sustainability. McCully also announced that NZAID would be folded back into MFAT and its aid budget more closely aligned with GNZ foreign policy goals. McCully's announcements were met with loud opposition from the Labour Party, NGOs and on-site protesters who all argued that Government's moves would politicize aid and adversely affect its delivery. Despite some opposition, McCully is intent of charting a new course for New Zealand's aid program. End Summary.

New Zealand's Aid Program to be Overhauled

¶2. (SBU) In a May 1 speech to the New Zealand Institute of International Affairs before an audience of diplomats, academics and bureaucrats, Foreign Minister Murray McCully stated that New Zealand's aid program in the Pacific has failed and will be overhauled. McCully's forceful speech, often delivered with blunt assessments to strengthen his argument, left few in the audience unconvinced of the seriousness of the National Government's intention to change New Zealand's aid program. A full transcript of the speech can be found at: <http://www.beehive.govt.nz/speech>

Aid Budget Increased

¶3. (SBU) A central aspect of the McCully's speech was his announcement that the aid budget will increase to NZD 500 million for the 2009/10 financial year, rising to NZD 525 million in 2010/11, NZD 550 million in 2011/12 and to NZD 600 million in 2012/13. The 2008-09 aid budget was set at NZD 471.9 million. McCully also stated that there would be "prudent increases over the next few years" that would see the aid budget reach NZD 600 million in 2012/13. McCully readily acknowledged that the announced budget increase would not match that promised by the previous Labour government. However, he defended the funding as "realistic and

sustainable in the current global economic situation" and the yearly increases as "prudent."

#### McCully Labels Existing Aid Strategy a Failure

---

14. (SBU) McCully argued the existing aid strategy has not helped recipient nations and asserted that the current focus on poverty alleviation was "too lazy and incoherent" to make the best use of the funding. Payments, McCully declared, had become "a handout rather than a hand up." McCully stated that a key objective of the new aid strategy is to reverse the negative trends in New Zealand's Pacific neighborhood. He argued that by any objective measurement, current aid policies have simply not succeeded. NZ's aid dollars, McCully asserted, have "done little to build sustainable economies providing employment prospects and the promise of a brighter future."

#### New Focus - Pacific Economic Sustainability

---

15. (SBU) McCully announced that the aid mandate would now shift focus from poverty alleviation to sustainable economic growth with objective measures such as trade and tourism statistics as indicators of success. McCully said that priority will be given to allocating aid in the Pacific region with an aim to improve the trade capacity of Pacific Island economies. McCully noted that NZ's billion dollar export trade into the Pacific has been reciprocated by imports from Pacific nations "so miserly that they should be a source of national embarrassment."

16. (SBU) Presently, the Pacific region gets 53 per cent of New Zealand's aid. McCully said the region would get "a greater share

WELLINGTON 00000112 002.2 OF 003

of the total aid budget" and that share would be more targeted. He asserted that too much money was being spent on "unproductive bureaucracies clipping the ticket, and when aid money was really needed - such as after the riots in Tonga in 2006, it had been missing in action." McCully emphasized that "in too many locations around the Pacific, others from outside the region have moved into the space that we have unwisely vacated." (Comment: Ministers and officials have been clear that China is the other power in the region that most worries them. End Comment.)

#### NZAID Brought Back into Foreign Ministry

---

17. (SBU) McCully announced that NZAID, New Zealand's international aid agency, will merge back into the Ministry of Foreign Affairs and Trade (MFAT). After he ordered two reviews into NZAID in March, McCully now wants to take steps to take more political control of NZ's aid program. McCully stated the change recognized aid was a key component of the Foreign Affairs portfolio, "and thus needs to align, as much as possible, with New Zealand's wider foreign policy interests." McCully forcefully asserted that aid money was taxpayers money and "its expenditure should be overseen by elected office holders able to be held to account at the ballot box -- not by faceless, unelected, unaccountable aid bureaucrats." He also expressed concern about aid ending up funding NGO overheads, administrative costs at NZAID, and being soaked up by bureaucracy. NZAID's functions and its 200 staff will be folded back into the operations of the Foreign Ministry, reversing the previous Labour Government's decision to separate the entities in 2002. McCully cautioned that it was too early to say what shape structural changes would take and the timing of any such changes.

#### Labour Criticize New Aid Direction

---

18. (SBU) The opposition Labour Party's associate foreign affairs spokesman Phil Twyford said the Government's aid strategy ran contrary to what other countries recognized as best practice and it risks turning aid into a "diplomatic slush fund." Twyford called the Government's move to take more political control of the aid program by re-integrating NZAID into MFAT as "tampering in secret."

After the speech, McCully was greeted by protesting students as he spoke with media. The protesters noisily claimed that McCully was to trying to corrupt and politicize aid.

#### NGO Fears Re-Integration Could Impact Aid Delivery

-----

¶9. (SBU) Oxfam's New Zealand executive director Barry Coates expressed concern at the NZAID re-integration move. Coates fears that NZ's overseas aid will be at risk of becoming a political tool and the underlying reason behind the 2002 NZAID-MFAT spill was to avoid such a possibility. Coates, who is also board chairman of the Council for International Development, drew attention to reports of considerable failings of aid delivery when NZAID was previously part of MFAT. He believes that there will be the very real risk of potentially reinstating problems that existed until NZAID was divested from MFAT.

#### Other Donor Thoughts

-----

¶10. A western diplomat who attended McCully's speech questioned the use of economic indicators as measures of aid effectiveness. The diplomat expressed concern that economic growth, in particular, is not a precise determinant of aid effectiveness as it is possible for a country's per capita GDP to increase with no impact on poverty. The Millennium Development Goals, the diplomat argued, are superior underpinning measures of development achievement. (Note: McCully did not once refer to the Millennium Development Goals in his speech. End Note). Australian officials were not surprised by the remarks, as McCully had discussed his views on NZAID with Australian

WELLINGTON 00000112 003.2 OF 003

Ministers as well as the High Commissioner. MFAT wants to pursue "seamless" aid delivery through NZAID in the Pacific with Australia, says the High Commission.

#### Comment

-----

¶11. (SBU) Although some in the audience were surprised at the tone and substance of McCully's speech, National in opposition had voiced strong concerns over GNZ aid programs to the Pacific. A more politically accountable and targeted aid program is a long-held National Party position. Additionally, National's "hand-up, not hand-out" approach is a central tenet of the center-right party. The move to re-integrate NZAID with MFAT is consistent with the Government's wider program of creating a more efficient and streamlined public sector. The Government likely has the political and popular support to modify New Zealand aid program. It is too early, however, to know how profound these changes will be. End Comment.

Keegan